

Weekly Contributions  
Latin America Branch, CRE, CIA  
16 August 1949

B/IA suggests particular attention to the items on Argentina (p. 2) and Bolivia (p. 2). The event treated in former may later prove of great importance, though information permitting full evaluation is lacking; the situation outlined in the latter may produce events affecting US relations later.

## CURRENT DEVELOPMENTS

NORTHERN DIVISION: (See Situation Memo on Honduras, p. 4)

CENTRAL DIVISION: (See Situation Memo on Ecuador, p. 7)

SOUTHERN DIVISION: Bramuglia's resignation as foreign minister will at least temporarily handicap US-Argentine relations; other implications are not clear (p. 2). A recent Peruvian decree favors the US interest in strategic materials (p. 2). The Bolivian situation is developing toward an increased risk for foreigners in that country (p. 2). Lines are being drawn for another showdown in Paraguay (p. 3).

#### SPECIAL SUBJECTS

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1. ARGENTINA: Foreign Minister Bramuglia's replacement by Jesús Paz, an inexperienced man reportedly of strong nationalist leanings, will weaken the position of the economic reform group (already a minority) in the Cabinet. It is not clear with which — if with any — of the competing Argentine cliques Paz is to be identified. But the loss of Bramuglia's experience and vigorous advocacy of improved US-Argentine relations will be at least a temporary handicap to these relations, even if no change of national policy is involved.
2. PERU: US mining interests in Peru have been favored by a decree of 9 August that permits them to retain 100% of the dollar exchange resulting from their metal exports. Previously, they had to accept the loss represented by receiving 55% dollar exchange and 45% soles at the rate of 6,485 to the dollar. The new decree should stimulate Peruvian production and exports of metals, thus improving US sources of supply of strategic metals (particularly vanadium).
3. BOLIVIA: Current political and labor turmoil, particularly considering the weakness of the present Bolivian government, the new alliance between the MNR and the PIR (See CIA Daily Summary 3 Aug) and the natural characteristics of much of the Bolivian population, are producing a situation of increased risk for foreigners in Bolivia. The killing of two US citizens at the Catavi mines (See B/LA Wkly for 31 May 49) and the recently reported murder of a protestant missionary by Bolivians <sup>25X168b</sup> on 8 August illustrate possible results of these risks. [REDACTED] see no evidence at present in Bolivia of any general anti-foreign feeling and state that the two above-mentioned killings are not connected, B/LA estimates that, if present tensions are increased by economic hardship following reductions in mining wages or working forces, a situation may be created in which recurring violence against foreigners — for example, representatives of US enterprises in Bolivia — can be expected.

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b. PARAGUAY: Lines are being drawn for another showdown. President Molas Lopez, supported by several minor cabinet members, certain extremists of the Colorado Party, and the Paraguari artillery regiment, is opposed by Federico Chaves, Colorado Party chief, who has the backing of such key figures as the Minister of Defense, the Commander-in-chief of the Armed Forces, the Chief of the Asuncion police, and the commander of the 11th Infantry Regiment. The alignment would give Chaves the preponderance of strength, but the real key to the military — and, therefore, as is usual in Paraguay, to the political — situation is the First Cavalry Division, which has not, so far, given any indication of its orientation. While the weaker group may give up and be permitted exile, the forceful expulsion of one faction by the other is equally possible. Aside from the setback to Hemisphere stability caused by another revolution, none of the changes in the Paraguayan government which appear possible at this time would seriously affect US interests.

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The Current Situation in Honduras

(Summary -- The Galvez government is popular and stable. The authoritarian controls of the Cariás dictatorship have been relaxed. Some small-scale subversive activity has developed. The economic situation is favorable. The military capabilities of the Army have been reduced, but the Air Force continues both efficient and loyal.

-- Nothing in the current situation importantly modifies long-standing advantages for US security interests deriving from Honduras' thorough-going support of the US and of Hemisphere unity.)

Political

After seven months in office, President Galvez' government remains popular and stable. Both its popularity and stability have been increased by relaxation of the authoritarian controls of the sixteen-year Cariás dictatorship. This trend toward a relatively liberal form of republicanism is evidenced by: the administration's encouragement of political oppositionists to return from exile; the revival with government sanction of trade unionism, which had been completely suppressed under Cariás; and the subordination of national- and internal-security duties of the Army to public-service functions, such as road building. The only important opposition to the administration comes from discharged personal followers of ex-President Cariás. These politicians, angered over losing profitable jobs, have been further alienated by the appointment of a number of Liberal (opposition) Party members to public office. As a result, there is a decided rift within the Nationalist (government) Party. B/LA estimates, however, that these dissidents are unlikely to attempt a revolt because Cariás, who is still head of the Nationalist Party, remains completely loyal to his close friend and hand-picked successor, Galvez.

Subversive

The easing of government controls has permitted infiltration by potential subversive elements. Labor agitators from Guatemala and El Salvador have entered the banana-producing north coast region and in

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some cases have distributed Communistic propaganda. The workers have not been responsive to their propaganda, however, and the fruit companies have been able to control agitation. The government is unlikely to intervene unless there is more serious trouble than at present seems probable.

Economic

The present economic situation is good. The government has already started on its extensive road-building program, which will provide much-needed transportation facilities for many semi-isolated rural areas and will stimulate economic activity. The slowly expanding operations of the banana industry have provided additional employment, and expenditures by the fruit companies in Honduras continue to provide dollars, so that dollar imports for all practical purposes are unrestricted. B/LA believes that economic conditions are such that the present relative prosperity will continue.

The administration is pursuing sound fiscal practices, having reversed the tendency toward deficit spending that had developed in the later years of the Carías regime; revenues for the present fiscal year exceeded expenditures by about \$650,000. The 1949/50 budget has allocated proportionately 30% more funds to public welfare, education, and sanitation than the previous budget, and 20% less to the military. A commission has been appointed to study tax revision and will probably effect the enactment of a graduated income tax by the next session of Congress. The views of the influential Vice President and Minister of Government, Julio Lozano, who believes that the large companies -- all US-owned -- have not made a contribution commensurate with the benefits they have derived, will probably result in heavier taxes for US-owned commercial enterprises.

Military

Army strength has been reduced to an estimated 1500 from the October election-time peak of 6000. The new Army departmental commanders are presumably loyal to Galvez who appointed them. The Air Force has been slightly strengthened by the acquisition of two new fighter planes. Air Force personnel have received favored treatment and are considered loyal. Apparently Galvez, like his predecessor, prefers to rely primarily on the air arm for the security of his government.

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International

The Galvez administration favors the concept of Hemisphere unity and has shown no inclination to participate in Central American-Caribbean power-balance rivalries. The President is friendly with Nicaragua's Somoza but also maintains amicable relations with the other Central American governments. B/LA estimates that this policy of strict neutrality will continue. Galvez and his colleagues are pro-US and can be relied on to support the US wholeheartedly in most international matters.

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The Current Situation in Ecuador

(Summary -- After foiled plots and in the face of a national disaster, the prospects of political stability appear to be improved. The distressed economy, however, is in no shape to recover from the earthquake without assistance. Communists continue their policy of quiescence. For the time being, the army may be expected to remain loyal to the government. There are no serious international problems facing Ecuador at this time.

-- Nothing in the current Ecuadoran situation is causing or immediately portends noticeable change in status of US security interests in the area.)

Political

The outlook for political stability has improved as a result of the government's successes on 4 and 26 July, and of the national disaster in early August.

The outcome of the two crises in July demonstrates that President Plaza has less popular and military opposition than over-pessimistic reports had previously indicated. The outcry against the arrest of certain prominent Liberals and Socialists in Loja and Cuenca on 4 July 1949 -- prompted in part by the fact that the arresting officials paid too little attention to the requirements of judicial detention and process -- subsided immediately when the president ordered the release of these civilians "in order that they may better prepare their defense." The Manchano fiasco on 26 July put the president in a still better position in that it seemed to demonstrate -- not only to him and his friends but also to his enemies -- that the armed forces were by no means inevitable collaborators in any revolutionary movement. Army commanders almost to the man repudiated Manchano and rushed their protestations of loyalty to Plaza. Civilians involved were members of the Liberal and Socialist parties, and were quickly and unequivocally disowned by their parties.

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For some weeks prior to the earthquake, the convening of Congress (10 August) was expected to be a time of serious crisis for the administration. An understanding was reported between the Liberal and Socialist parties that they would combine forces in Congress (thus giving them a majority), pass resolutions to interpolate various members of the Plaza cabinet, and follow these interpolations with a vote of lack of confidence and a demand for the ministers' resignations. Upon the anticipated refusal of the president to insist that his ministers resign, a general strike was to be called by the national labor confederation (CTE), controlled by the Socialists.

It is doubtful now that plans involving such blatant politics will be carried out in the face of the current national disaster. The horror and fright induced should promote national unity and make all segments of the population intolerant of any more of the plots and subversive action which have recently plagued the Plaza administration. The dramatic way in which the president has worked in the devastated area directing rescue operations and the manner in which he has put all the food supplies of his not inconsiderable farm holdings freely at the disposal of the relief workers will inspire wide popular approbation and thereby promote the stability of the administration which he heads.

Economic

While business conditions cannot properly be considered critical, the seasonal recovery due at this time has not yet appeared and will probably not reach the levels of the past two years when it does. There are bright prospects for exceptionally good crops, but high production costs will endanger rice exports, which are counted on to counteract the foreign-exchange deficit which Ecuador would otherwise have. If this year's rice is sold at a loss, it is possible that additional import controls will have to be imposed.

Credit remains tight and currency circulation restricted. After a conference with International Monetary Fund experts, it was decided to extend the Emergency International Exchange Control Law for another year (until 5 June 1950). The government's development program, financed largely from the difference between import and export exchange rates, has, however, accomplished little basic preparatory work and goes forward on a very inefficient day-to-day basis at present. The

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poor impression made by the lack of a well-worked-out program on representatives of the Bank for International Reconstruction and Development will, in all probability, seriously reduce Ecuador's chances of getting that volume of foreign loans necessary to supplement government funds in the execution of President Plaza's large plans.

The relatively considerable budget imbalance requiring deficit financing is reflected in the government's difficulties in meeting outstanding obligations including its payroll for civilian employees and the armed forces. Considering the unfavorable business conditions, it is unlikely that tax receipts will improve.

The earthquake in and around Ambato obviously came at a time when the Ecuadoran economy was least able to meet such a major blow to its productive capacity. Ambato and its environs -- one of the country's most important industrial areas, because of ample water power -- specialize in textile manufactures (the most important industry from the standpoint of employment, engaging 11.4% of all the country's non-agricultural labor force) and flour milling. The extensive devastation will most certainly create, among several economic problems, one of serious unemployment. Should humane considerations, however, make available more extensive foreign loans "in the name of reconstruction" than hard-headed economic considerations formerly considered justifiable, the adverse consequences would be reduced. In the textile industry, particularly, reconstruction loans would mean modern machinery, the lack of which has been the major cause of the decline of this all-important local industry.

Subversive

In all the recent plotting against the government (see Political section), the Communists have been notably inactive and extremely careful to avoid giving any appearance of participation. Apparently this policy of quiescence is motivated both by the conviction that the present plotting elements lack sufficient strength to have any well-founded hopes of success, and by realization that the only part the Communists could play in any overthrow of the Ecuadoran government would be that of a junior partner to elements that are not in the least sympathetic with Communism or with the Communist Party per se. The wisdom of their policy of non-participation has been amply justified by the reaction to the Manchano coup (26 July 1949). No one, in or out of the government, has tried to make a whipping-boy of the Communists.

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Military

In spite of the unusually large number of reports concerning anti-government plotting by army officers (retired and active) and of dangerously wide-spread unrest in the ranks, there is a strong probability that the military plotters make exaggerated claims as to the extent and intensity of dissatisfaction in the armed forces. The rather ridiculous failure of the recent Mancheno coup (intended to be primarily an army show) indicates that, although the army may be dissatisfied with its lot economically, it is by no means possessed of an overwhelming desire to revolt on any handy occasion. B/LA estimates that the army will remain loyal to the government unless the anti-Plaza politicos achieve a degree of unity, cohesion, and determination sufficient to convince the armed forces of their ability to fulfill any promises they might make to win army support, or unless President Plaza outrages the army's leftist orientation by delivering himself over to the Conservatives, body and soul — an improbable development.

Ecuadoran purely military capabilities remain at the normal low level.

International

In the international field, the major preoccupation of the Ecuadoran government continues to be fear of Peruvian aggression, in which they persist in spite of dissipation of all alleged present bases for that fear. The reported secret defensive military alliance with Colombia is probably mostly conversation.

In broader international affairs, the present Ecuadoran government stresses independence, but does not depart far from US-approved policies. It would like to resolve the Franco question independently by recognition, but is held back by hesitancy to desert the US line and by reluctance to be a follower of Peru. It has officially announced its approval of the Atlantic Pact and has expressed the judgment that it is consonant with and reinforces the Treaty of Mutual Aid signed at Rio de Janeiro in 1947.

Ecuador has, however, signed with another country (Chile in August 1949) a treaty dealing with the exchange of commodities comparable to

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that signed with Colombia in April 1949. In each treaty a list of specified items will be mutually exchanged duty-free. It is not yet clear whether Ecuador, in compliance with the most-favored-nation clause (Art. XI) of the US-Ecuadoran Reciprocal Trade Agreement, will move to admit duty-free from the US the same goods which may now enter Ecuador from Chile and Colombia duty-free.

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